



VILLAGE OF ARMADA
Macomb County, Michigan
AUDITED FINANCIAL STATEMENTS
For The Year Ended March 31, 2005

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968 as amended. Filing is mandatory

Local Government Type		Local Government Name		County
City	Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other <input type="checkbox"/>	Village of Armada		Macomb
Audit Date	3/31/05	Opinion Date	6/20/05	Date Accountant Report Submitted to State: 7/20/05

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements of Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have compiled with the Bulletin for the Audits of Local Units of Government in Michigan as revised.
2. We are certified public accountants registered to practice in Michigan

We further affirm the following "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this units unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>		
Reports on individual federal financial assistance programs (program audits).			<input checked="" type="checkbox"/>
Single Audit Reports (ASLGR).			<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name)			
McBride, Manley & Miller PC			
Street Address	City	State	Zip
PO Box 26	Marine City	MI	48039
Accountant Signature			
<i>John E. McBride CPA</i>			

VILLAGE OF ARMADA

TABLE OF CONTENTS

	<i>Page</i>
Management's Discussion and Analysis	i - iv
Independent Auditors' Report	1
Basic Financial Statements	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Assets	2
Statement of Activities	3
<i>Fund Financial Statements:</i>	
Balance Sheet - Governmental Funds	4
Reconciliation of the Governmental Funds	
Balance Sheet with the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes	
in Fund Balance - Governmental Funds	6
Reconciliation of the Governmental Funds	
Statement of Revenues, Expenditures, and	
Changes in Fund Balance with the Statement	
of Activities	7
Statement of Net Assets - Proprietary Funds	8
Statement of Revenues, Expenses, and Changes	
in Net Assets - Proprietary Funds	9
Statement of Cash Flows - Proprietary Funds	10
Statement of Fiduciary Net Assets	11
General Fund - Statement of Revenues, Expenditures,	
and Changes in Fund Balance - Budget (GAAP Basis)	
and Actual	12
Major Street Fund - Statement of Revenues,	
Expenditures, and Changes in Fund Balance -	
Budget (GAAP Basis) and Actual	13
Local Street Fund - Statement of Revenues,	
Expenditures, and Changes in Fund Balance -	
Budget (GAAP Basis) and Actual	14
Municipal Street Fund - Statement of Revenues,	
Expenditures, and Changes in Fund Balance -	
Budget (GAAP Basis) and Actual	15
Notes to Financial Statements	16-28
Supplemental Information	
<i>General Fund:</i>	
Details of Revenues	29
Details of Expenditures	30-32



VILLAGE OF ARMADA

Management's Discussion and Analysis

March 31, 2005

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's combined net assets increased 5.0% from a year ago from \$6,496,000 to \$6,820,000. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities net assets increased by approximately \$95,000 during the year (6.7% increase). This was the result of an increase in General Fund net assets. The business-type activities experienced a \$230,000 increase in net assets, primarily as a result of Water Fund net income of \$153,000. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
Current Assets	\$ 1,262	\$ 1,113	\$ 1,887	\$ 1,489	\$ 3,121	\$ 2,578
Noncurrent Assets	370	776	4,970	6,354	5,309	7,122
Total Assets	1,632	1,889	6,857	7,843	8,430	9,700
Long-Term Debt Outstanding	49	194	882	1,981	900	2,167
Other Liabilities	162	180	900	558	1,034	713
Total Liabilities	211	374	1,782	2,538	1,934	2,880
Net Assets						
Invested in Capital Assets - Net of Debt	278	544	3,760	4,025	4,038	4,569
Restricted	54	32	267	291	321	323
Unrestricted	1,089	939	1,048	989	2,137	1,928
Total Net Assets	\$ 1,421	\$ 1,515	\$ 5,075	\$ 5,305	\$ 6,496	\$ 6,820

2004 amounts are restated for prior period adjustment.

Unrestricted net assets--the part of net assets that can be used to finance day to day operations, decreased by \$150,000 for the governmental activities. This represents a decrease of approximately 13.8%. The current level of unrestricted net assets for our governmental activities stands at \$939,000, or about 118% of expenditures. This exceeds the targeted range set by the Village during its last budget process.

VILLAGE OF ARMADA

Management's Discussion and Analysis

March 31, 2005

The following table shows the changes in net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
Program Revenues						
Charges for Services	\$ 63	\$ 41	\$ 751	\$ 842	\$ 814	\$ 883
Operating Grants and Contributions	107	130	—	—	107	130
Capital Grants and Contributions	—	—	50	—	50	—
General Revenues						
Property Taxes	533	552	—	—	533	552
State-Shared Revenues	169	158	—	—	169	158
Unrestricted Investment Earnings	14	14	7	10	21	24
Other	32	17	—	—	32	17
Transfers	—	(23)	—	23	—	—
Total Revenues	918	889	808	875	1,726	1,764
Program Expenses						
General Government	128	136	—	—	128	136
Public Safety	333	359	—	—	333	359
Public Works	216	215	—	—	216	215
Legislative	13	14	—	—	13	14
Community and Economic Development	2	17	—	—	2	17
Recreation and Culture	1	—	—	—	1	—
Other	92	48	—	—	92	48
Debt service	1	5	—	—	1	5
Water	—	—	138	177	138	177
Sewer	—	—	462	468	462	468
Total Expenses	786	794	600	645	1,386	1,439
Change in Net Assets	\$ 132	\$ 95	\$ 208	\$ 230	\$ 340	\$ 325

The Village's net assets continue to remain healthy. Net assets grew by \$325,000. This was primarily because of excess revenues in the Water and Sewer Utility Funds.

Governmental Activities

The Village's governmental activities consist of the General Fund, the Major Street Fund, the Local Street Fund, and the Municipal Street Fund. The governmental activities experienced an increase in net assets due to some additional grant money received and an increase in property tax revenue.

Business-Type Activities

The Village's business-type activities consist of the Water and Sewer Funds. The Village provides water and sewer to all Village residents (approximately 1,600). The Village experienced an increase in our net operating income. This was due primarily to an increase in rates and usage by residents, including additional homes in completed sub-divisions.

VILLAGE OF ARMADA

Management's Discussion and Analysis

March 31, 2005

The Village's Funds

Our analysis of the Village's major funds begins on page 4, following the entity wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Village as a whole. The Village creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds include the General Fund, the Major Street Fund, the Local Street Fund, and the Municipal Street Fund.

The General Fund pays for most of the Village's governmental services. The most significant are public safety, general government, and public works, which incurred expenses totaling approximately \$734,000. These three functions are primarily supported by property taxes and State shared revenues.

General Fund Budgetary Highlights

Over the course of the year, the Village made few amendments to the original budget. Departments overall stayed within budget, resulting in total expenditures of \$841,000. The only significant expenditure in excess of those in the budget was \$150,000 spent on acquiring land for the general government. Despite this, the General Fund's fund balance increased from \$348,000 a year ago to \$382,000 at March 31, 2005.

Capital Asset and Debt Administration

At the end of March 31, 2005, the Village had \$7,106,000 invested in a broad range of capital assets, including buildings, police, public works equipment, and water and sewer lines. In addition, the Village has invested significantly in roads within the Village. Roads constructed prior to April 1, 2003 are not reported on the Village's financial statements.

Economic Factors and Next Year's Budgets and Rates

The Village budget for the year including March 31, 2006, does not anticipate an increase in property tax rates. Because of the impact of Proposal A, however, the Village needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Village may grow less than by inflation, before considering new construction.

Water and sewer rates are scheduled to rise at the rate of increase in the Consumer Price Index on an annual basis.

The Village of Armada has entered into a low interest loan agreement through the State of Michigan Drinking Water Revolving Fund in the amount of \$3,750,000. These funds are being used to construct a new water filtration plant and other water system improvements. The Village has also budgeted capital expenditures for street and sewer line improvements. The additional projects are funded using the Village's unrestricted fund balance and amount to approximately \$830,000. There has been an increase in water rates to accommodate the repayment of the DWRF bonds over a 20 year period.

VILLAGE OF ARMADA

Management's Discussion and Analysis

March 31, 2005

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.



**McBride, Manley
& Miiller P.C.**

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

June 20, 2005

Village Council
Village of Armada
Armada, Michigan 48005

Honorable Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Armada, as of and for the year ended March 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Armada's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Armada, as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages i through iv are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Armada's basic financial statements. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our report of comments and recommendations dated June 20, 2005, has been submitted under separate cover.

Respectfully submitted,

McBride, Manley & Miiller

McBRIDE, MANLEY & MILLER P.C.
Certified Public Accountants

VILLAGE OF ARMADA
STATEMENT OF NET ASSETS
March 31, 2005

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current Assets				
Cash in bank	\$ 945,218	\$ 503,703	\$ 1,448,921	\$ 8,269
Restricted cash	—	485,879	485,879	—
Investments - restricted	—	291,045	291,045	—
- unrestricted	68,945	—	68,945	—
Accrued interest	—	564	564	—
Prepaid expenses	2,059	1,838	3,897	—
Internal balances - current*	24,388	—	—	—
Due from DDA	7,500	—	7,500	—
Due from County	16,467	—	16,467	—
Due from State of Michigan	38,721	—	38,721	—
Accounts receivable - other	5,726	—	5,726	—
Restricted receivables	—	43,464	43,464	—
Accounts and contributions receivable (net of allowance of \$729)	—	162,749	162,749	—
Assessments receivable	572	—	572	—
Personal property taxes receivable	3,197	—	3,197	—
Total Current Assets	1,112,793	1,489,242	2,577,647	8,269
Other Assets				
Amortizable bond fees	—	16,183	16,183	—
Internal balances*	8,044	—	—	—
Capital assets, net of accumulated depreciation	768,419	6,337,848	7,106,267	—
TOTAL ASSETS	\$ 1,889,256	\$ 7,843,273	\$ 9,700,097	\$ 8,269
LIABILITIES				
Current Liabilities				
Accounts payable	\$ 58,109	\$ 187,214	\$ 245,323	\$ —
Accrued interest	5,015	—	5,015	—
Internal balances - current*	—	24,388	—	—
Due to Village	—	—	—	7,500
Deposit retention	8,094	—	8,094	—
Accrued wages, vacation, and sick pay	29,131	6,202	35,333	—
Current portion of leases and notes payable	30,224	340,000	370,224	—
Deferred revenue	49,075	—	49,075	—
Total Current Liabilities	179,648	557,804	713,064	7,500
Noncurrent Liabilities				
Long-term obligations net of current portion	194,457	1,565,570	1,760,027	—
Internal balances*	—	8,044	—	—
Bond to be paid from restricted assets	—	407,103	407,103	—
TOTAL LIABILITIES	\$ 374,105	\$ 2,538,521	\$ 2,880,194	\$ 7,500
NET ASSETS				
Investment in capital assets, net of related debt	\$ 543,738	\$ 4,025,175	\$ 4,568,913	\$ —
Restricted	32,432	291,045	323,477	—
Unrestricted	938,981	988,532	1,927,513	769
TOTAL NET ASSETS	\$ 1,515,151	\$ 5,304,752	\$ 6,819,903	\$ 769

* amounts have been offset in the total column

See accompanying notes.



VILLAGE OF ARMADA

STATEMENT OF ACTIVITIES

For the year ended March 31, 2005

Net (Expense) Revenue							
Program Revenues				Primary Government		Total	Component Units
Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities		
PRIMARY GOVERNMENT:							
Governmental Activities:							
General government	\$ 136,308	\$ -	\$ 14,628	\$ -	\$ (121,680)	\$ -	\$ (121,680)
Legislative	13,600	-	-	-	(13,600)	-	(13,600)
Public safety	358,999	41,144	16,529	-	(301,326)	-	(301,326)
Community and economic development	17,456	-	-	-	(17,456)	-	(17,456)
Public works	214,894	-	98,825	-	(116,069)	-	(116,069)
Other	47,832	-	-	-	(47,832)	-	(47,832)
Debt service	4,619	-	-	-	(4,619)	-	(4,619)
Total Governmental Activities	793,708	41,144	129,982	-	(622,582)	-	(622,582)
Business-type Activities:							
Water	177,719	304,884	-	-	-	127,165	127,165
Sewer	488,502	537,932	-	-	-	69,430	69,430
Total Business-type Activities	646,221	842,816	-	-	-	196,595	196,595
TOTAL PRIMARY GOVERNMENT	\$ 1,439,929	\$ 883,960	\$ 129,982	\$ -	(622,582)	196,595	(425,987)
GENERAL PURPOSE REVENUES:							
Property taxes					551,792	-	551,792
State shared revenues					157,807	-	157,807
Investment earnings					14,321	10,157	24,478
Other					16,500	-	16,500
Transfers					(23,334)	23,334	-
TOTAL GENERAL PURPOSE REVENUES					717,086	33,491	750,577
CHANGE IN NET ASSETS							
NET ASSETS AT APRIL 1, 2004					94,504	230,086	324,590
Prior period adjustment					1,420,647	5,060,730	6,481,377
RESTATED NET ASSETS AT APRIL 1, 2004					-	13,936	13,936
NET ASSETS AT MARCH 31, 2005					\$ 1,515,151	\$ 5,304,752	\$ 6,819,903
							\$ 769

See accompanying notes.

VILLAGE OF ARMADA**BALANCE SHEET -
GOVERNMENTAL FUNDS**

March 31, 2005

	General	Major Street Fund	Local Street Fund	Municipal Street Fund	Total Governmental Funds
ASSETS					
Cash in bank	\$ 430,619	\$ 48,496	\$ 9,413	\$ 456,690	\$ 945,218
Investments	—	—	—	68,945	68,945
Due from other funds	39,932	—	1,428	36,211	77,571
Due from County	16,467	—	—	—	16,467
Due from State of Michigan	21,039	13,059	4,623	—	38,721
Accounts receivable - other	5,726	—	—	—	5,726
Assessments receivable	—	—	—	572	572
Personal property taxes receivable	2,306	—	—	891	3,197
TOTAL ASSETS	\$ 516,089	\$ 61,555	\$ 15,464	\$ 563,309	\$ 1,156,417
LIABILITIES					
Accounts payable	\$ 21,518	\$ 31,038	\$ 3,242	\$ 2,310	\$ 58,108
Due to other funds	37,639	—	—	—	37,639
Deposit retention	3,094	—	—	5,000	8,094
Accrued wages	20,594	199	210	—	21,003
Deferred revenue	51,382	—	—	891	52,273
TOTAL LIABILITIES	134,227	31,237	3,452	8,201	177,117
FUND EQUITY					
Reserved	32,432	—	—	—	32,432
Unreserved, undesignated	349,430	30,318	12,012	555,108	946,868
TOTAL FUND EQUITY	381,862	30,318	12,012	555,108	979,300
TOTAL LIABILITIES AND FUND EQUITY	\$ 516,089	\$ 61,555	\$ 15,464	\$ 563,309	\$ 1,156,417

See accompanying notes.



VILLAGE OF ARMADA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH THE STATEMENT OF NET ASSETS

March 31, 2005

Total Fund Balance - Governmental Funds	\$	979,300
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

Cost of capital assets	\$	1,214,071	
Less: accumulated depreciation		(445,652)	
Net Capital Assets			768,419

Delinquent personal property taxes receivable, federal grant revenues receivable, and interest income receivable were not available soon enough after year end to pay the current period expenditures, and therefore, are deferred in the governmental funds.

3,197

Prepaid expenses are not recorded in the governmental funds.

2,059

Long-term liabilities, including loans payable, are not due in the current period, and therefore, are not reported as liabilities in the governmental funds.

Loans payable	(224,681)	
Accrued interest on loans	(5,015)	
Compensated absences	(8,128)	
Total Long-Term Liabilities		(237,824)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$	<u>1,515,151</u>
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See accompanying notes.



VILLAGE OF ARMADA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the year ended March 31, 2005

	General	Major Street Fund	Local Street Fund	Municipal Street Fund	Total Governmental Funds
Revenues:					
Tax collections	\$ 394,314	\$ —	\$ —	\$ 157,524	\$ 551,838
County pass-through reimbursement grant	24,641	—	—	—	24,641
Distributions from State of Michigan	168,611	72,994	25,831	—	267,436
Licenses, permits, fines, and fees	39,913	—	—	1,231	41,144
Interest earned	10,501	670	46	3,104	14,321
Miscellaneous revenue	20,389	—	—	—	20,389
Proceeds from lease and land acquisition	188,911	—	—	—	188,911
Intergovernmental	50,772	—	—	—	50,772
TOTAL REVENUES	898,052	73,664	25,877	161,859	1,159,452
Other Financing Sources:					
Transfers from other funds	—	100,000	30,000	—	130,000
TOTAL REVENUES AND OTHER FINANCING SOURCES	898,052	173,664	55,877	161,859	1,289,452
Expenditures:					
Legislative	13,600	—	—	—	13,600
General government	308,337	900	1,012	1,012	311,261
Public safety	340,881	—	—	44,199	385,080
Community and economic development	17,456	—	—	—	17,456
Public works	84,624	338,540	55,689	—	478,853
Other	47,832	—	—	—	47,832
Debt service - principal	23,831	—	—	—	23,831
- interest	4,619	—	—	—	4,619
TOTAL EXPENDITURES	841,180	339,440	56,701	45,211	1,282,532
Other Financing Uses:					
Transfers to other funds	23,334	—	—	130,000	153,334
TOTAL EXPENDITURES AND OTHER FINANCING USES	864,514	339,440	56,701	175,211	1,435,866
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	33,538	(165,776)	(824)	(13,352)	(146,414)
Fund Balance at April 1, 2004	348,324	196,094	12,836	568,460	1,125,714
FUND BALANCE AT MARCH 31, 2005	\$ 381,862	\$ 30,318	\$ 12,012	\$ 555,108	\$ 979,300

See accompanying notes.



VILLAGE OF ARMADA

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE WITH THE STATEMENT OF ACTIVITIES

March 31, 2005

Total Net Change in Fund Balances - Governmental Funds	\$ (146,414)
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Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, for government activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of net activities. Proceeds from the sale of capital assets are reported as revenue in the governmental funds. For government activities, these proceeds are reduced by the net book value of disposed assets to provide the gain or loss on sale of such assets in the statement of net activities.

Capital outlay	\$ 488,272	
Less: depreciation	<u>(57,343)</u>	
		430,929

Delinquent personal property taxes receivable, federal grant revenues receivable, and interest income receivable were not available soon enough after year end to pay the current period expenditures, and therefore, are deferred in the governmental funds. (4,334)

Prepaid expenses are not recorded in the governmental funds. (24,338)

Repayment of loan principal is an expenditure, and loan proceeds are revenue in the governmental funds. Proceeds increase and repayments decrease liabilities in the statement of net assets and do not affect the statement of activities.

Loan principal payments	\$ 23,831	
Loan proceeds	<u>(188,911)</u>	
		(165,080)

Compensated absences are measured by the amount earned in the statement of activities. In the governmental funds, these items are measured by financial resources used. 7,024

Interest expenditures are recorded when financial resources are used in the governmental funds. Interest expense is recognized as the interest accrues regardless of when it is due. (3,283)

Change in Net Assets of Governmental Activities	\$ <u>94,504</u>
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See accompanying notes.



VILLAGE OF ARMADA

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

March 31, 2005

	Sewer Fund	Water Fund	Total Proprietary Funds
ASSETS			
Current Assets			
Cash - checking	\$ 235,396	\$ 268,307	\$ 503,703
Restricted cash	368,405	117,474	485,879
Restricted investments	291,045	--	291,045
Accrued interest	--	564	564
Prepaid expenses	662	1,176	1,838
Restricted receivables	43,464	--	43,464
Accounts receivable (net of allowance of \$722)	70,833	91,916	162,749
Due from other funds	2,875	--	2,875
Total Current Assets	1,012,680	479,437	1,492,117
Other Assets			
Amortizable bond fees	16,183	--	16,183
Capital assets, net of accumulated depreciation	4,148,243	2,189,605	6,337,848
TOTAL ASSETS	\$ 5,177,106	\$ 2,669,042	\$ 7,846,148
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 44,809	\$ 142,405	\$ 187,214
Due to other funds - current	--	27,263	27,263
Accrued wages, vacation, and sick pay	2,681	3,521	6,202
Current portion of leases and notes payable	190,000	150,000	340,000
Total Current Liabilities	237,490	323,189	560,679
Noncurrent Liabilities			
Long-term obligations net of current portion	252,897	1,312,673	1,565,570
Due to other funds	--	8,044	8,044
Bond to be paid from restricted assets	407,103	--	407,103
TOTAL LIABILITIES	\$ 897,490	\$ 1,643,906	\$ 2,541,396
NET ASSETS			
Investment in capital assets, net of related debt	\$ 3,298,243	\$ 726,932	\$ 4,025,175
Unrestricted	690,328	298,204	988,532
Restricted	291,045	--	291,045
TOTAL NET ASSETS	\$ 4,279,616	\$ 1,025,136	\$ 5,304,752

See accompanying notes.



VILLAGE OF ARMADA**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - PROPRIETARY FUNDS**

For the year ended March 31, 2005

	Sewer Fund	Water Fund	Total Proprietary Funds
Operating Revenues:			
Water and sewage services	\$ 303,173	\$ 276,001	\$ 579,174
Sewer billing charges	5,043	—	5,043
Hydrant rental	—	350	350
Tap-ins	12,500	12,500	25,000
Miscellaneous	801	5,300	6,101
TOTAL OPERATING REVENUES	321,517	294,151	615,668
Operating Expenses:			
Contract services	181,503	—	181,503
Salaries and wages	15,004	64,224	79,228
Utilities	1,366	10,419	11,785
Professional services	19,000	3,476	22,476
Supplies	2,524	7,816	10,340
Repairs and maintenance	14,876	18,056	32,932
Payroll taxes and benefits	4,988	18,857	23,845
Depreciation and amortization	170,798	32,599	203,397
Administrative fee	13,334	8,400	21,734
Insurance	4,889	4,188	9,077
Dues	—	1,248	1,248
Equipment rental	4,953	2,462	7,415
Transportation	1,701	1,896	3,597
Training	—	479	479
Printing	—	1,101	1,101
Miscellaneous	3,157	475	3,632
TOTAL OPERATING EXPENSES	438,093	175,696	613,789
OPERATING INCOME (LOSS)	(116,576)	118,455	1,879
Nonoperating Revenue (Expense):			
Debt service revenue	216,415	10,733	227,148
Interest revenue	7,705	2,452	10,157
Bond interest expense and agent fees	(30,409)	(2,023)	(32,432)
TOTAL NONOPERATING REVENUE (EXPENSES)	193,711	11,162	204,873
INCOME BEFORE OPERATING TRANSFERS	77,135	129,617	206,752
Operating Transfers:			
Transfer to other funds	—	(64)	(64)
Transfer from other funds	64	23,334	23,398
CHANGE IN NET ASSETS	77,199	152,887	230,086
Net Assets at April 1, 2004	4,202,417	858,313	5,060,730
Prior period adjustment	—	13,936	13,936
Restated Net Assets at April 1, 2004	4,202,417	872,249	5,074,666
NET ASSETS AT MARCH 31, 2005	\$ 4,279,616	\$ 1,025,136	\$ 5,304,752

See accompanying notes.



VILLAGE OF ARMADA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the year ended March 31, 2005

	Sewer Fund	Water Fund	Total Proprietary Funds
Cash Flows From Operating Activities:			
Receipts from customers	\$ 316,689	\$ 247,749	\$ 564,438
Payments to suppliers	(337,199)	(144,732)	(481,931)
Payments to employees	(15,229)	(64,573)	(79,802)
Other receipts	--	5,061	5,061
<i>Net Cash Provided By (Used In) Operating Activities</i>	<u>(35,739)</u>	<u>43,505</u>	<u>7,766</u>
Cash Flows From Noncapital Financing Activities:			
Transfer to other funds	--	(64)	(64)
Transfer from other funds	64	23,334	23,398
<i>Net Cash Provided By Noncapital Financing Activities</i>	<u>64</u>	<u>23,270</u>	<u>23,334</u>
Cash Flows From Capital And Related Financing Activities:			
Acquisition of capital assets	(131,590)	(1,324,637)	(1,456,227)
Principal paid on lease and bond payable	(195,000)	(590,000)	(785,000)
Interest paid on capitalized lease and bonds	(30,409)	3,508	(26,901)
Bond proceeds	--	1,462,673	1,462,673
Debt service revenue	216,415	10,733	227,148
<i>Net Cash Used In Capital and Related Financing Activities</i>	<u>(140,584)</u>	<u>(437,723)</u>	<u>(578,307)</u>
Cash Flows From Investing Activities:			
Interest and dividends on investments	7,705	2,452	10,157
<i>Net Cash Provided By Investing Activities</i>	<u>7,705</u>	<u>2,452</u>	<u>10,157</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(168,554)</u>	<u>(368,496)</u>	<u>(537,050)</u>
Cash and Cash Equivalents at April 1, 2004	909,145	754,277	1,663,422
CASH AND CASH EQUIVALENTS AT MARCH 31, 2005	<u>\$ 740,591</u>	<u>\$ 385,781</u>	<u>\$ 1,126,372</u>
Reconciliation Of Operating Income To Net Cash Provided By (Used In) Operating Activities:			
Operating income (loss)	\$ (116,576)	\$ 118,455	\$ 1,879
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</i>			
Depreciation and amortization	170,798	32,599	203,397
<i>Change in Assets and Liabilities:</i>			
Accounts receivable	(4,828)	(41,341)	(46,169)
Prepaid expenses	4,860	4,069	8,929
Accrued interest	--	(564)	(564)
Due from other funds	(113,172)	6,252	(106,920)
Accounts payable	23,404	(54,305)	(30,901)
Due to other funds	--	(21,311)	(21,311)
Accrued expenses	(225)	(349)	(574)
<i>Net Cash Provided By (Used In) Operating Activities</i>	<u>\$ (35,739)</u>	<u>\$ 43,505</u>	<u>\$ 7,766</u>

See accompanying notes.



VILLAGE OF ARMADA

**FIDUCIARY FUNDS -
STATEMENT OF NET ASSETS**

For the year ended March 31, 2005

		Tax Collection Fund
<hr/>		
ASSETS		
Cash	\$	343,639
Certificate of deposit		130,949
TOTAL ASSETS	\$	<u>474,588</u>
LIABILITIES		
Due to other funds	\$	474,588
TOTAL LIABILITIES	\$	<u>474,588</u>

See accompanying notes.



VILLAGE OF ARMADA

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended March 31, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	Favorable (Unfavorable) Final to Actual
Revenues:				
Tax collections	\$ 390,000	\$ 398,514	\$ 394,314	\$ (4,200)
County pass-through reimbursement grant	44,000	44,000	24,641	(19,359)
Distributions from State of Michigan	159,725	164,013	168,611	4,598
Licenses, permits, fines, and fees	41,850	41,850	39,913	(1,937)
Interest earned	4,500	5,600	10,501	4,901
Miscellaneous revenue	20,000	34,700	20,389	(14,311)
Proceeds from lease	40,000	40,000	188,911	148,911
Intergovernmental	28,640	47,740	50,772	3,032
TOTAL REVENUES	728,715	776,417	898,052	121,635
Expenditures:				
Legislative	14,400	14,400	13,600	800
General government	161,298	173,188	308,337	(135,149)
Public safety	364,068	349,935	340,881	9,054
Community and economic development	17,490	17,490	17,456	34
Public works	82,715	80,105	84,624	(4,519)
Recreation	7,700	7,700	--	7,700
Other	113,704	102,904	47,832	55,072
Debt service - principal	--	30,043	23,831	6,212
- interest	--	8,620	4,619	4,001
Total Expenditures	761,375	784,385	841,180	(56,795)
Other Financing Uses:				
Transfers to other funds	8,650	8,650	23,334	(14,684)
TOTAL EXPENDITURES AND OTHER FINANCING USES	770,025	793,035	864,514	(71,479)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(41,310)	(16,618)	33,538	50,156
Fund Balance at April 1, 2004	348,324	348,324	348,324	--
FUND BALANCE AT MARCH 31, 2005	\$ 307,014	\$ 331,706	\$ 381,862	\$ 50,156

See accompanying notes.



VILLAGE OF ARMADA

MAJOR STREET FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended March 31, 2005

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues:				
Distributions from State Motor Vehicle Highway Fund	\$ 55,000	\$ 55,000	\$ 72,994	\$ 17,994
Interest earned	900	900	670	(230)
Total Revenues	55,900	55,900	73,664	17,764
Other Financing Sources:				
Transfers from other funds	--	170,000	100,000	(70,000)
TOTAL REVENUES AND OTHER FINANCING SOURCES	55,900	225,900	173,664	(52,236)
Expenditures:				
Street construction	56,000	248,000	272,132	(24,132)
Routine maintenance	48,415	52,825	44,531	8,294
Snow and ice control	6,000	6,000	4,715	1,285
Administrative	1,000	1,000	900	100
Intergovernmental	1,250	10,000	14,612	(4,612)
Miscellaneous	4,676	4,676	2,550	2,126
TOTAL EXPENDITURES	117,341	322,501	339,440	(16,939)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(61,441)	(96,601)	(165,776)	(69,175)
Fund Balance at April 1, 2004	196,094	196,094	196,094	--
FUND BALANCE AT MARCH 31, 2005	\$ 134,653	\$ 99,493	\$ 30,318	\$ (69,175)

See accompanying notes.



VILLAGE OF ARMADA

LOCAL STREET FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended March 31, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable) Final to Actual
Revenues:				
Distributions from State Motor				
Vehicle Highway Fund	\$ 17,800	\$ 17,800	\$ 25,831	\$ 8,031
Interest earned	102	102	46	(56)
Total Revenues	17,902	17,902	25,877	7,975
Other Financing Sources:				
Transfers from other funds	50,000	50,000	30,000	(20,000)
TOTAL REVENUES AND OTHER FINANCING SOURCES	67,902	67,902	55,877	(12,025)
Expenditures:				
Routine maintenance	42,196	42,046	37,076	4,970
Snow and ice control	3,500	3,500	4,107	(607)
Administrative	1,500	1,500	1,012	488
Intergovernmental	1,250	10,000	12,604	(2,604)
Miscellaneous	4,764	4,914	1,902	3,012
TOTAL EXPENDITURES	53,210	61,960	56,701	5,259
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	14,692	5,942	(824)	(6,766)
Fund Balance at April 1, 2004	12,836	12,836	12,836	--
FUND BALANCE AT MARCH 31, 2005	\$ 27,528	\$ 18,778	\$ 12,012	\$ (6,766)

See accompanying notes.



VILLAGE OF ARMADA

MUNICIPAL STREET FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended March 31, 2005

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues:				
Current tax collections	\$ 155,254	\$ 155,254	\$ 157,524	\$ 2,270
Interest earned	1,700	1,700	3,104	1,404
Street and sidewalk construction	22,000	22,000	1,231	(20,769)
Total Revenues	178,954	178,954	161,859	(17,095)
Expenditures:				
Administrative	1,045	1,045	1,012	33
Street and sidewalk construction	40,000	40,000	15,899	24,101
Street lights	24,000	24,000	28,300	(4,300)
Miscellaneous	5	5	--	5
Total Expenditures	65,050	65,050	45,211	19,839
Other Financing Uses:				
Transfers to other funds	50,000	95,000	130,000	(35,000)
TOTAL EXPENDITURES AND OTHER FINANCING USES	115,050	160,050	175,211	(15,161)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	63,904	18,904	(13,352)	(32,256)
Fund Balance at April 1, 2004	568,460	568,460	568,460	--
FUND BALANCE AT MARCH 31, 2005	\$ 632,364	\$ 587,364	\$ 555,108	\$ (32,256)

See accompanying notes.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF VILLAGE OPERATIONS AND FUND TYPES: The Village of Armada covers an area of one square mile. The Village operates under an elected President, Clerk, Treasurer, and Board of six Trustees and provides services, including law enforcement, to its residents (approximately 1,700).

REPORTING ENTITY: The financial reporting entity consists of the primary government of the Village of Armada and its discretely presented component unit. GASB Statement No. 14, as amended by GASB 39, states that the financial reporting entity consists of (a) the primary government; (b) organizations for which the primary government is financially accountable; and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria for determining the financial reporting entity are separately elected governing body, legally separate entity, fiscally independent, ability to appoint voting majority of governing body, ability to impose its will, and potential for benefit or burden. Certain other organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government or its other component units. A legally separate, tax-exempt organization would be reported as a component unit of the reporting entity if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Using this criteria, the Downtown Development Authority has been determined to be a component unit of the Village of Armada.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes and other revenues are recognized in the accounting period when they become measurable and available to finance operations. Properties are assessed as of December 31, and the related property taxes are levied and become a lien on the following July 1. These taxes are due on September 14, with a final collection date of February 28, before they are added to the county tax rolls.

Revenues earned and susceptible to accrual are considered available and recognized if received within sixty days after the year end.

The government reports the following major governmental funds:

GENERAL FUND - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, protective services, and other intergovernmental revenues.

SPECIAL REVENUE FUNDS - The Major Street Fund, Local Street Fund, and Municipal Street Fund are used to account for specific governmental revenues (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

The government reports the following major proprietary funds:

ENTERPRISE FUNDS - The Water Supply and Sewage Disposal System Funds report operations that provide services which are financed by user charges or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control, or other purposes.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned. Residual balances between the business-type activities and the governmental activities are reported as "internal balances."

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to follow private sector standards issued after November 30, 1989, for its business-type activities.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES, AND NET ASSETS

BANK DEPOSITS AND INVESTMENTS: Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Sewer Fund cash for Statement of Cash Flows excludes \$154,255 deposited in a long-term certificate of deposit.

RECEIVABLES AND PAYABLES: In general, outstanding balances between funds are reported as "due to/from other funds." All trade and property tax receivables are shown net of allowance for uncollectible amounts.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS

(Continued)

March 31, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORIES AND PREPAID ITEMS: Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the government-wide financial statements only.

CAPITAL ASSETS: Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

Infrastructure assets acquired prior to April 1, 2003, have not been capitalized and are omitted from the Statement of Net Assets.

Assets are depreciated using the straight-line method over the following useful lives:

Buildings	20 years
Water and Sewer System	20-40 years
Roads and Sidewalks	20 years
Machinery and Equipment	5-10 years
Water and Sewer Plant and Equipment	20 years

COMPENSATED ABSENCES: It is the policy of the Village to permit employees to accumulate a limited amount of earned, but unused, vacation leave. This leave will be paid upon separation from Village service. In governmental funds, accrued vacation leave has been recorded when paid. Proprietary funds accrue vacation leave in the period it is earned. Employees can accumulate up to 30 sick days. Upon termination, a formula is used to determine the unused sick days to be paid. Any amounts earned and unused above 30 days are paid annually each April 1.

All vacation and vested sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

LONG-TERM OBLIGATIONS: In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

FUND EQUITY: In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

It is the policy of the Village to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS: P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets, as amended by the Village Council, were adopted at the departmental level and are shown in the supplemental schedules to this statement. Budget amendments require approval from a majority of the Village Council. Actual expenditures exceeded those budgeted as follows:

<u>General Fund</u>	
Village Administration	\$149,140
Protective Inspections	6
Planning Commission	654
Department of Public Works	4,519
<u>Major Street Fund</u>	
Expenditures	\$ 16,939



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2005

NOTE 3: CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are at Michigan banks in the name of the Village of Armada Treasurer. Michigan Act 20 P.A. 1943 allows a village to make various investments with public monies including, but not limited to, the following:

1. Direct bonds and obligations of the U.S., its agencies or instrumentalities.
2. Certificates of deposit, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency and located in the State of Michigan.
3. Commercial paper - rated within 2 highest rate classifications by at least 2 rating services and matures not later than 270 days.
4. U.S. or agency repurchase agreements.
5. Mutual funds - investments which local unit can make directly.
6. Bankers' acceptances of U.S. banks.
7. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The deposits of the Village are in accordance with statutory authority.

Deposits and investments are recorded at cost. The carrying amounts are included on the balance sheet as "Cash," "Investments," and "Restricted assets."

CUSTODIAL CREDIT RISK: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of March 31, 2005, \$1,673,342 of the government's bank balance of \$1,959,432 was exposed to custodial credit risk as follows:

	Insured (FDIC)	Uninsured and Uncollateralized	Carrying Amount	Bank Balance/ Market Value
Deposits				
Demand deposits	\$100,000	\$1,642,343	\$1,725,931	\$1,742,343
Certificate of deposit	186,140	30,949	217,089	217,089
Cash on hand	--	50	50	--
	<u>\$286,140</u>	<u>\$1,673,342</u>	1,943,070	<u>\$1,959,432</u>
Investments				
Mutual funds - nonrisk category			359,990	
GRAND TOTAL CASH AND INVESTMENTS			<u>\$2,303,060</u>	



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS

(Continued)

March 31, 2005

NOTE 4: RESTRICTED ASSETS, RELATED CURRENT LIABILITIES, AND RESTRICTED NET ASSETS - PROPRIETARY FUNDS

The Village has two ordinances requiring the collection of fees for specific use. Accumulated resources are reported as restricted investments and restricted assets on the balance sheet.

	<u>Sewer</u>
1987 Sewer Ordinance:	
Debt service	\$260,175
Asset replacement account	291,045
1991 Sewer Ordinance - debt service	<u>146,928</u>
Total Restricted Assets	698,148
Less: Liabilities to be paid from restricted assets	(407,103)
Restricted Net Assets at March 31, 2005	<u>\$291,045</u>

In addition, \$117,474 of Water Fund assets are restricted for use in the construction of a new water treatment facility.

NOTE 5: FIXED ASSETS

Governmental Activities Fixed Assets

A summary of changes in governmental fixed assets follows:

	<u>Balance</u> <u>3/31/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>3/31/05</u>
Land	\$ 58,951	\$152,283	\$ --	\$ 211,234
Buildings	169,795	--	--	169,795
DPW equipment	201,174	3,813	--	204,987
Police Department equipment	103,444	44,145	--	147,589
Highway maintenance equipment	80,173	--	--	80,173
Streets	71,724	288,031	--	359,755
Administration equipment	40,538	--	--	40,538
	<u>\$725,799</u>	<u>\$488,272</u>	<u>\$ --</u>	1,214,071
Less: accumulated depreciation				(445,652)
				<u>\$ 768,419</u>

Governmental activity depreciation, included on the Statement of Activities, was allocated as follows:

Public Safety	\$17,322
Public Works	24,728
General Government	<u>15,293</u>
Total	<u>\$57,343</u>



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS

(Continued)

March 31, 2005

NOTE 5: FIXED ASSETS (Continued)

Water Supply and Sewage Disposal Systems

A summary of the Water Supply and Sewage Disposal System's fixed assets follows:

	<u>Water Fund</u>		<u>Sewer Fund</u>	
	<u>Village</u>		<u>Village</u>	<u>Capitalized</u>
	<u>Assets</u>		<u>Assets</u>	<u>Leases</u>
Land	\$ --		\$ 8,567	\$ --
Machinery and equipment	147,973		111,959	--
Plant, property, and equipment	2,472,221		1,356,521	--
Capitalized lease	--		--	5,279,503
Total	2,620,194		1,477,047	5,279,503
Less: Accumulated depreciation	(430,589)		(613,987)	(1,994,320)
	<u>\$2,189,605</u>		<u>\$ 863,060</u>	<u>\$3,285,183</u>
				<u>\$6,337,848</u>

Depreciation included in operating expenses for the period amounted to \$32,599 in the Water Fund and \$161,085 (including capitalized lease amortization of \$126,074) in the Sewer Fund. Depreciation is being calculated using the straight-line method over a period of 5-40 years. Accumulated depreciation includes accumulated amortization on capitalized leases of \$1,994,320.

In June of 1999, the Village refinanced a current bond issue. A redemption premium and costs to issue the new bonds totaled \$72,040. These costs are being amortized over 89 months and amortization at March 31, 2005, totaled \$9,713.

NOTE 6: LEASE PURCHASE AGREEMENTS AND OTHER LONG-TERM INDEBTEDNESS

LEASE PURCHASE AGREEMENTS - GENERAL OBLIGATION

During 1987, the Village entered into a contract with Macomb County for the acquisition and construction of a wastewater facility under the provision of Act 342, Public Acts of Michigan, 1939, as amended. The County issued \$1,600,000 in bonds secured primarily by the full faith and credit contractual obligation of the Village of Armada. The County owns the facility and leases to the Village for a period not to exceed 40 years or when the bonds are retired, whichever is earlier. Annual lease payments are the amounts necessary to pay the interest, principal, and agent fees according to the bond maturity schedule. The imputed interest rate was 7.06714%. The Village residents approved an unlimited ad valorem tax to fund this obligation.

In June, 1999, the County refinanced the underlying debt with a refunding bond issue. In conjunction with the refunding, the County amended this lease to provide the Village with the benefit of the interest savings from this refunding. The new imputed rate is 4.39136%.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS

(Continued)

March 31, 2005

NOTE 6: LEASE PURCHASE AGREEMENTS AND OTHER LONG-TERM INDEBTEDNESS (Continued)

The minimum future lease payments, excluding agent fees, are \$413,295. The minimum lease payments for the next five years are as follows:

<u>Fiscal Year</u>	<u>Due Date</u>	<u>Amount Due</u>	<u>Due Date</u>	<u>Amount Due</u>	<u>Total Annual Requirement</u>
March 31, 2006	5/1/05	\$8,388	11/1/05	\$138,387	\$146,775
March 31, 2007	5/1/06	5,560	11/1/06	135,560	141,120
March 31, 2008	5/1/07	2,700	11/1/07	122,700	125,400
Total Future Minimum Lease Payments					413,295
Less Imputed Interest					(33,295)
Net Present Value of Future Minimum Lease Payments					<u>\$380,000</u>

The Village entered into a contract with Macomb County for the acquisition and construction of a sewer separation system under Act No. 342, Public Acts of Michigan, 1939, as amended. The County has issued \$1,170,000 in bonds purchased by the Michigan Municipal Bond Authority, secured primarily by the full faith and credit contractual obligation of the Village of Armada. The County shall be the owner of the facility and lease to the Village for a period not to exceed 40 years or when the bonds are retired, whichever is earlier. Annual lease payments are the amounts necessary to pay the interest, principal, and agent fees according to the bond maturity schedule.

The minimum future lease payments, excluding agent fees, are \$509,000. The minimum lease payments for the next five years are as follows:

<u>Fiscal Year</u>	<u>Due Date</u>	<u>Amount Due</u>	<u>Due Date</u>	<u>Amount Due</u>	<u>Total Annual Requirement</u>
March 31, 2006	4/1/05	\$4,700	10/1/05	\$64,700	\$ 69,400
March 31, 2007	4/1/06	4,100	10/1/06	64,100	68,200
March 31, 2008	4/1/07	3,500	10/1/07	68,500	72,000
March 31, 2009	4/1/08	2,850	10/1/08	72,850	75,700
March 31, 2010	4/1/09	2,150	10/1/09	72,150	74,300
After March 31, 2010					149,400
Total Future Minimum Lease Payments					509,000
Less: Imputed Interest					(39,000)
Net Present Value of Future Minimum Lease Payments					<u>\$470,000</u>

In November of 2004, the Village issued bonds in the amount of \$1,462,673 to acquire and construct water supply improvements. These bonds bear interest at 2.125% and are due in October of 2024. The proceeds of these bonds are to be used to pay for the cost of a new water filtration plant.

SUMMARY OF PRINCIPAL AND INTEREST REQUIREMENTS ON BOND

<u>Payable In Fiscal Year Ending March 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 150,000	\$ 19,006	\$ 169,006
2007	155,000	35,962	190,962
2008	160,000	32,668	192,668
2009	160,000	29,268	189,268
2010	165,000	25,868	190,868
2011-2015	672,673	75,261	747,934
	<u>\$1,462,673</u>	<u>\$218,033</u>	<u>\$1,680,706</u>



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2005

NOTE 6: LEASE PURCHASE AGREEMENTS AND OTHER LONG-TERM INDEBTEDNESS (Continued)

The Village entered into a lease purchase agreement for a 2004 F-750 dump truck. The minimum lease payments are as follows:

	<u>Fiscal Year</u>	<u>Due Date</u>	<u>Total Annual Requirements</u>
Dump Truck	March 31, 2006	7/15/05	\$14,829
	March 31, 2007	7/15/06	14,829
	March 31, 2008	7/15/07	14,829
	March 31, 2009	7/15/08	14,829
	Total Future Minimum Lease Payments		<u>\$59,316</u>

The Village also entered into a lease purchase agreement for two 2005 Crown Victoria police cars. The minimum lease payments are as follows:

	<u>Fiscal Year</u>	<u>Due Date</u>	<u>Total Annual Requirements</u>
	March 31, 2006	9/02/05	\$13,621
	March 31, 2007	9/02/06	13,621
	Total Future Minimum Lease Payments		<u>\$27,242</u>

In January of 2005, the Village entered into an installment purchase agreement in the amount of \$150,000. This agreement bears interest at 5.05%, requires semiannual payments of \$7,191, matures January 15, 2010, is due to Fifth Third Bank, and is secured by a mortgage on land.

SUMMARY OF PRINCIPAL AND INTEREST REQUIREMENTS ON INSTALLMENT LOAN

<u>Payable In Fiscal Year Ending March 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 6,892	\$ 7,489	\$ 14,381
2007	7,245	7,137	14,382
2008	7,615	6,766	14,381
2009	8,004	6,377	14,381
2010	<u>120,244</u>	<u>37,948</u>	<u>158,192</u>
	<u>\$150,000</u>	<u>\$65,717</u>	<u>\$215,717</u>

CHANGE IN INDEBTEDNESS

	<u>Payable 3/31/04</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Payable 3/31/05</u>
Capitalized lease obligation	\$ 530,000	\$ --	(\$ 60,000)	\$ 470,000
Capitalized lease obligation	515,000	--	(135,000)	380,000
DWRF Construction note	<u>590,000</u>	<u>1,462,673</u>	<u>(590,000)</u>	<u>1,462,673</u>
Total Proprietary Funds Debt	<u>1,635,000</u>	<u>1,462,673</u>	<u>(785,000)</u>	<u>2,312,673</u>
Installment loan	--	150,000	--	150,000
Capitalized lease - two police cars	--	25,290	--	25,290
Capitalized lease - dump truck	<u>59,601</u>	--	(10,210)	<u>49,391</u>
Total Governmental Activities Debt	<u>59,601</u>	<u>175,290</u>	<u>(10,210)</u>	<u>224,681</u>
Total Indebtedness	<u>\$1,694,601</u>	<u>\$1,637,963</u>	<u>(\$795,210)</u>	<u>\$2,537,354</u>



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2005

NOTE 6: LEASE PURCHASE AGREEMENTS AND OTHER LONG-TERM INDEBTEDNESS (Continued)

Total interest expense for the Village for the year was \$62,861. The Village capitalized \$25,810 in interest in the Water Fund, and the remaining \$37,051 has been expensed in various funds.

DEBT MARGIN

Michigan Compiled Law limits indebtedness incurred by villages to 10% of the total taxable value of the village. For the fiscal year 03/04, the taxable value of the Village of Armada was \$41,765,813; therefore, the legal debt margin is \$4,176,581.

NOTE 7: INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds. These receivables and payables are classified as "Due from other funds," "Due to other funds," or "Restricted assets" on the balance sheet. The amounts of interfund receivables and payables are as follows:

	<u>Interfund Receivable</u>		<u>Interfund Payable</u>
Local Street Fund	\$ 1,428		
Municipal Street Fund	<u>36,211</u>		
	<u>\$ 37,639</u>	General Fund	<u>\$ 37,639</u>
Sewer Fund	\$ 2,875		
General Fund	<u>32,432</u>		
	<u>\$ 35,307</u>	Water Fund	<u>\$ 35,307</u>
General Fund	<u>\$ 7,500</u>	DDA Fund	<u>\$ 7,500</u>

Interfund receivables and payables are eliminated in the entity-wide presentations, within the governmental and business-type fund groups.

The amount due to the General Fund from the Water Fund were monies loaned to complete the water tower construction. The balance of this loan at March 31, 2005, totaled \$32,432. The loan is being retired by monthly installments of \$2,121 and bears interest at 5% per annum.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS

(Continued)

March 31, 2005

NOTE 8: INTERFUND TRANSFERS

Operating transfers during the year ended March 31, 2005, are as follows:

	<u>Transfers In</u>		<u>Transfers Out</u>
Major Street Fund	\$100,000		
Local Street Fund	<u>30,000</u>		
	<u>\$130,000</u>	Municipal Street Fund	<u>\$130,000</u>
Water Fund	<u>\$ 23,334</u>	General Fund	<u>\$ 23,334</u>
Sewer Fund	<u>\$ 64</u>	Water Fund	<u>\$ 64</u>

These transfers have been eliminated in the entity-wide Statement of Activities.

NOTE 9: DEFERRED COMPENSATION PLAN

The Village offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries.

It is the opinion of the Village's legal counsel that the Village has no liability for losses under the plan but does have the duty of care that would be required of an ordinary prudent investor.

NOTE 10: CONTINGENT LIABILITIES

The Sewer Fund is billed annually for the operations of the sewer plant which is currently under contract with an independent company. An estimated payment is made monthly with an annual determination in June of each year of any additional amounts due. No amount has been recorded at March 31, 2005, and an annual determination has not been computed.

The Village has been named in a lawsuit involving a developer. The developer claims that the Village is responsible for the repair of certain roadways. Residents of the Village have filed two lawsuits against the Village. The residents allege wrongdoing and conspiracy. Any potential liability as a result of these suits is not determinable at this time. No liability or reserve has been recorded for these suits as of March 31, 2005.

NOTE 11: RISK FINANCING

The Village of Armada is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent third parties. Settled claims from these risks have not exceeded insurance coverage for the past three years.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS

(Continued)

March 31, 2005

NOTE 12: RESERVED FUND BALANCE

As of March 31, 2005, the General Fund Balance Sheet reflects a receivable from the Water Fund. Governmental accounting requires fund balances be restricted for all amounts not available to pay current obligations. Therefore, the noncurrent portion of the amount due to the General Fund of \$32,432 is presented as a restriction to fund balance.

NOTE 13: PRIOR PERIOD ADJUSTMENT

A prior period adjustment in the amount of \$13,936 was made for capital assets expensed in error for the year ended March 31, 2004.

NOTE 14: CONTRACTUAL COMMITMENTS

In November 2004, the Village issued \$3,740,000 in bonds, all of which have been designated for the construction of a new water filtration plant. As of March 31, 2005, the Village is contractually obligated to expend approximately \$1,463,000 on this project.



SUPPLEMENTAL INFORMATION



McBride, Manley
& Müller P.C.

VILLAGE OF ARMADA**GENERAL FUND -
DETAILS OF REVENUES**

For the year ended March 31, 2005

	Budget	Actual	Variance Favorable (Unfav.)
<i>Tax Collections:</i>			
Current	\$ 398,514	\$ 394,314	\$ (4,200)
<i>County Pass-Through Reimbursement Grant</i>	44,000	24,641	(19,359)
<i>Distributions from State of Michigan:</i>			
Revenue sharing	155,000	162,095	7,095
Liquor license fee	1,200	1,100	(100)
PA 48 funds	4,288	4,288	--
Act 302 funds	3,525	1,128	(2,397)
	164,013	168,611	4,598
<i>Licenses, Permits, Fines, and Fees:</i>			
Fines and forfeitures	30,000	29,282	(718)
Permits and licenses	11,850	10,631	(1,219)
	41,850	39,913	(1,937)
<i>Other Revenues:</i>			
Interest earned	5,600	10,501	4,901
Water, sewer, rent, and street administration	47,740	50,772	3,032
Tower site rent	3,900	--	(3,900)
Proceeds from lease and land acquisition	40,000	188,911	148,911
Miscellaneous	30,800	20,389	(10,411)
	128,040	270,573	142,533
<i>TOTAL REVENUES</i>	\$ 776,417	\$ 898,052	\$ 121,635

See accompanying letter.



VILLAGE OF ARMADA**GENERAL FUND
DETAILS OF EXPENDITURES**

For the year ended March 31, 2005

	Budget	Actual	Variance Favorable (Unfav.)
LEGISLATIVE			
Trustees' Fees	\$ 14,400	\$ 13,600	\$ 800
GENERAL GOVERNMENT			
<i>Village Administration:</i>			
Supplies and postage	\$ 4,100	\$ 4,899	\$ (799)
Professional fees	38,500	46,113	(7,613)
Printing and publishing	2,500	2,980	(480)
Utilities	6,000	5,185	815
Dues and conferences	2,000	1,787	213
Transportation	100	146	(46)
Vehicle and equipment maintenance	4,090	3,068	1,022
Miscellaneous	2,500	3,469	(969)
Capital outlay	11,000	152,283	(141,283)
	<u>70,790</u>	<u>219,930</u>	<u>(149,140)</u>
<i>Village President:</i>			
Salary	<u>12,600</u>	<u>7,355</u>	<u>5,245</u>
<i>Village Clerk:</i>			
Salaries - clerk	20,088	16,740	3,348
- clerical	29,970	29,468	502
Benefits	13,120	12,890	230
Transportation	50	39	11
Dues	100	--	100
Miscellaneous	75	217	(142)
	<u>63,403</u>	<u>59,354</u>	<u>4,049</u>

See accompanying letter.



VILLAGE OF ARMADA**GENERAL FUND
DETAILS OF EXPENDITURES
(Continued)**

For the year ended March 31, 2005

	Budget	Actual	Variance Favorable (Unfav.)
GENERAL GOVERNMENT (Continued)			
Village Treasurer:			
Salaries - treasurer	\$ 24,035	\$ 20,396	\$ 3,639
Supplies and postage	1,600	1,145	455
Transportation	50	62	(12)
Dues	100	95	5
Capital outlay	100	--	100
Miscellaneous	510	--	510
	<u>26,395</u>	<u>21,698</u>	<u>4,697</u>
TOTAL GENERAL GOVERNMENT	\$ <u>173,188</u>	\$ <u>308,337</u>	\$ <u>(135,149)</u>
PUBLIC SAFETY			
Police:			
Salaries	\$ 220,000	\$ 209,773	\$ 10,227
Clothing allowance	4,500	4,704	(204)
Supplies	1,800	2,800	(1,000)
Insurance - benefits	42,160	33,640	8,520
Professional services	11,500	11,584	(84)
Utilities	7,800	7,114	686
Vehicle expense	5,000	5,683	(683)
Training	2,200	1,875	325
Capital outlay	37,000	44,145	(7,145)
Miscellaneous	300	1,069	(769)
Dues	1,750	710	1,040
Printing	300	78	222
Maintenance	6,500	8,575	(2,075)
	<u>340,810</u>	<u>331,750</u>	<u>9,060</u>
Protective Inspections:			
Salaries	6,900	6,616	284
Retainer	2,000	2,400	(400)
Dues and miscellaneous	225	115	110
	<u>9,125</u>	<u>9,131</u>	<u>(6)</u>
TOTAL PUBLIC SAFETY	\$ <u>349,935</u>	\$ <u>340,881</u>	\$ <u>9,054</u>

See accompanying letter.



VILLAGE OF ARMADA**GENERAL FUND
DETAILS OF EXPENDITURES
(Continued)**

For the year ended March 31, 2005

	Budget	Actual	Variance Favorable (Unfav.)
COMMUNITY AND ECONOMIC DEVELOPMENT			
<i>Cable Commission:</i>			
Salaries	\$ 1,500	\$ 1,062	\$ 438
<i>Planning Commission</i>	15,690	16,344	(654)
<i>Construction Board</i>	300	50	250
TOTAL COMMUNITY AND ECONOMIC DEVELOPMENT	\$ 17,490	\$ 17,456	\$ 34
PUBLIC WORKS			
Salaries	\$ 35,885	\$ 44,279	\$ (8,394)
Benefits	22,400	21,560	840
Clothing allowance	3,000	2,460	540
Supplies	3,000	1,588	1,412
Transportation	100	—	100
Miscellaneous	4,500	3,950	550
Maintenance	5,000	4,686	314
Utilities	2,400	2,288	112
Capital outlay	3,820	3,813	7
TOTAL PUBLIC WORKS	\$ 80,105	\$ 84,624	\$ (4,519)
RECREATION			
Supplies and maintenance	\$ 700	\$ —	\$ 700
Capital outlay	7,000	—	7,000
TOTAL RECREATION	\$ 7,700	\$ —	\$ 7,700
OTHER EXPENDITURES			
Workers' compensation	\$ 5,000	\$ 611	\$ 4,389
General insurance	22,578	—	22,578
Deferred compensation	1,700	1,673	27
Payroll taxes	26,926	27,100	(174)
Miscellaneous	—	1,138	(1,138)
County pass-through reimbursed projects	44,000	14,628	29,372
Cable - WNEM	2,700	2,682	18
TOTAL OTHER EXPENDITURES	\$ 102,904	\$ 47,832	\$ 55,072
OTHER FINANCING USES			
Transfers to other funds	\$ 8,650	\$ 23,334	\$ (14,684)

See accompanying letter.





**McBride, Manley
& Miiller P.C.**

Certified Public Accountants

June 20, 2005

Village Council
Village of Armada
Armada, Michigan 48005

Honorable Members:

We have examined the financial statements of the Village of Armada for the year ended March 31, 2005, and have issued our report thereon dated June 20, 2005. Our examination included a study and evaluation of internal control to the extent we considered necessary in order to establish a basis for reliance on the accounting records. The following areas of internal accounting control could be improved, and we feel they warrant your consideration.

PAYROLL

We noted instances where time cards were not signed by supervisors.

PURCHASES

During our examination, we noted several vendor invoices that bore no indication that the footings and extensions had been verified prior to payment. The mathematical accuracy of vendor invoices should be verified prior to payment, and an indication of this procedure should appear on all paid invoices. Invoices should also show evidence that they were approved.

CASH RECEIPTS

During our examination, we noted instances where deposits were not made in a timely manner. Generally, deposits should be made daily and clear the bank within two or three days.

WATER AND SEWER BILLING

The Village's billing system has consistently not reconciled to the general ledger by various amounts each month. Although these amounts are found to be immaterial, the situation needs to be monitored and may require some outside assistance.

HYDRANT RENTAL

During our audit, we noticed that the hydrant rental from the Water Fund to the General Fund was recorded as a transfer. In the future, this amount needs to be recorded as Hydrant Rental Revenue in the Water Fund and as an expense in the General Fund.

CONCLUSION

This report is intended solely for the information and use of the Village Council, management, and others within the Village. The restriction is not intended to limit the distribution of this report which is a matter of public record. We would like to express our appreciation and thanks to the Village officials and employees for their cooperation and many courtesies extended to us during our examination. We will be available to discuss these recommendations in detail or to assist in their implementations.

Respectfully submitted,

A handwritten signature in cursive script that reads "McBride, Manley & Miller".

McBRIDE, MANLEY & MILLER P.C.
Certified Public Accountants